



Saskatchewan
Agriculture
and Food

**Agricultural
Credit
Corporation of
Saskatchewan
Annual Report
2000-2001**

LETTER OF TRANSMITTAL

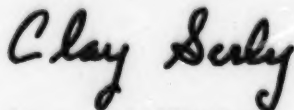
Regina, Saskatchewan
June 25, 2001

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2001.

Respectfully submitted,



Honourable Clay Serby
Minister Responsible for the
Agricultural Credit Corporation of Saskatchewan

YEAR IN REVIEW

During the fiscal year 2000-2001, the Corporation continued the wind-up by administering and managing the loan portfolio in a timely and efficient manner with a continued reduction in staff and resources.

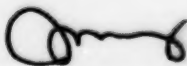
When the announcement to wind up ACS was made in March of 1996, approximately \$382.5 million was outstanding to 20,500 customers under all loan programs. Of this total, \$94 million was in a delinquent status. Staff positions remaining at March 31, 1996 were 152.55.

After five years of wind-up, the outstanding 4,082 loans have been reduced to \$90.1 million of which \$16.6 million is delinquent.

On January 1, 2001, 32 positions were transferred into the Department of Saskatchewan Agriculture and Food under the Financial Programs Branch to continue the administration of the loan portfolio and provide support to other department agencies.

For 2000-2001 ACS had a target to resolve 450 loans that were more than 400 days delinquent. At March 31, 2001 we were successful in resolving 585 loans.

The staff will continue to work diligently and sensitively with customers during these difficult times facing the Agriculture industry.



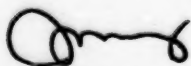
Joe Rakochy
Manager

MANAGEMENT'S RESPONSIBILITY FOR THE ANNUAL REPORT

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where estimates are used they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors met periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by PricewaterhouseCoopers LLP whose report follows.



Joe Rakochy
Manager

Swift Current, Saskatchewan
April 26, 2001

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the balance sheet of **Agricultural Credit Corporation of Saskatchewan** as at March 31, 2001 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Regina, Saskatchewan
April 26, 2001

BALANCE SHEET

	March 31	
	2001	2000
	(In thousands)	
Assets		
Cash and short term investments	\$ 3,216	\$ 11,003
Accounts receivable	307	70
Loans receivable (Notes 3, 4 & 5)	50,049	64,299
Assets held for resale (Notes 5 & 6)	9,667	10,989
Capital assets (Note 7)	-	296
Prepaid and deferred costs	-	152
	\$ 63,239	\$ 86,809
Liabilities		
Interest and other accrued payables	\$ 2,645	\$ 7,845
Unexpended grants payable (Schedule 2)	254	269
Long-term debt (Note 8)	59,835	77,894
	62,734	86,008
Equity		
Equity in capital assets (Note 7)	-	296
Accumulated surplus	505	505
	505	801
	\$ 63,239	\$ 86,809

Contingencies and commitments (Note 10)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS AND SURPLUS

For the year ended March 31

	Budget 2001 (unaudited) (Note 14)	Actual 2001	Actual 2000
	(In thousands)		
Interest and dividend income (Note 9)			
Loans receivable	\$ 8,342	\$ 8,387	\$ 11,089
Sinking fund and short-term investments	5,623	7,461	6,404
	13,965	15,848	17,493
Interest expense			
Long-term debt	23,465	23,465	29,143
Net interest expense	9,500	7,617	11,650
Provision for losses (Note 5)	-	632	(1,050)
Administrative expenses (Schedule 1)	2,595	2,601	5,510
Other income	(321)	(303)	(496)
Loss before grants	11,774	10,547	15,614
Grants (Schedule 2)	11,774	10,801	15,883
Surplus before unexpended grants repayable	-	254	269
Unexpended grants repayable (Schedule 2)	-	(254)	(269)
Surplus for the year	-	-	-
Surplus - Beginning of year	505	505	505
Surplus - End of year	\$ 505	\$ 505	\$ 505

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
For the year ended March 31

	2001	2000
	(In thousands)	
Cash provided by (used in):		
Operating activities		
Change in working capital other than cash (Note 12)	\$ (1,296)	\$ 2,463
Principal payments received	12,688	21,439
(Increase) decrease in accounts receivable	(237)	3,048
Decrease in unexpended grant repayable	(15)	(36)
Decrease in other operating activities	(868)	(88)
	<u>11,568</u>	<u>24,363</u>
	10,272	26,826
Financing activities		
Decrease in long-term debt	<u>(18,059)</u>	<u>(16,285)</u>
Net (decrease) increase in cash	(7,787)	10,541
Cash and other equivalents - Beginning of the year	<u>11,003</u>	<u>462</u>
Cash and other equivalents - End of the year	\$ 3,216	\$ 11,003

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2001

1. Status of the Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS) is a Corporation that acts as an agent of the Government of Saskatchewan and provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that ACS will be wound up. During the current fiscal year, all ACS employees and remaining capital assets were transferred to Saskatchewan Agriculture and Food. ACS still is responsible for collection of the loan funds, monitoring loan collectibility and retirement of their debt.

2. Significant accounting policies

- a) Under Section 29 of The Agricultural Credit Corporation of Saskatchewan Act, the Minister of Agriculture and Food may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the Balance sheet as Unexpended grants repayable.

New expenditures incurred in a fiscal year which exceed the grant provided for that purpose are reported as a deficit for the year and may be recovered from the grant to be received for that purpose in a subsequent year.

- b) Amounts recovered from customers for capital grants paid to them in prior years and amounts recovered for guarantees paid under discontinued programs are retained by the Corporation and are reported as surplus.
- c) Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and are included in Interest expense on long-term debt. The unamortized costs are carried on the Balance Sheet in Prepaid and deferred costs.
- d) The allowance for losses represents management's estimate of possible losses on loans and debentures outstanding at the end of the fiscal year. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the allowance for losses. This allowance has been based, in general, upon an estimate derived from a sample of outstanding loans and, in part, on a review of existing impaired loans.
- e) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. These asset values are adjusted annually for carrying costs and for the income or loss from any operations associated with the assets. The provision for losses represents management's estimate of possible losses on assets held for resale.

3. *Loan programs*

a) Capital loan program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 6% and 13.5%. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment loan program

Investment loans bear interest at rates between 8.5% and 10.5% and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production loan program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6%, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2%. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock cash advance program

Effective August 1, 1993, customers with Livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2% over a maximum five year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Spring seeding loan program

During the 1992 fiscal year, the Corporation paid out \$48.6 million to honour guarantees on loans granted by financial institutions under the Spring seeding loan program. The loans bear interest at prime plus 2%.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

f) Counselling and assistance for farmers program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees, which were outstanding under the Counselling and assistance for farmers program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995 at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5%.

The loans are secured by way of an assignment of security from the original lender.

Annual Report of the Agricultural Credit Corporation of Saskatchewan

g) Other loans

The Corporation is continuing collection of cash advances made to cattle producers up to March 31, 1980 under Part VI, VII, VIII of the Regulations under The Agricultural Incentives Act.

The loans are secured by promissory notes.

4. Loans receivable

	2001			2000		
	Gross	Allowance	Net	Gross	Allowance	Net
(In thousands)						
Capital loans	\$ 79,552	\$ 32,066	\$ 47,486	\$ 92,687	\$ 31,904	\$ 60,783
Investment loans	694	69	625	940	312	628
Production loans	2,526	1,297	1,229	3,254	1,653	1,601
Livestock cash advances	1,517	845	672	2,324	1,097	1,227
Spring seeding loans	54	17	37	78	18	60
Counselling and assistance for farmers loans	1,832	1,832	-	2,149	2,149	-
Other loans	1	1	-	2	2	-
	\$ 86,176	\$ 36,127	\$ 50,049	\$ 101,434	\$ 37,135	\$ 64,299

During the year a number of the Corporation's customers refinanced their Production loans, Livestock cash advances, Spring seeding loans and Counselling and assistance for farmers loans under the Capital loan program.

5. Allowance for losses

	Loans	Assets held for resale	2001	2000
(In thousands)				
Balance - Beginning of year	\$ 37,135	\$ 3,420	\$ 40,555	\$ 47,209
Provision for losses	1,223	(591)	63	(1,050)
Losses, write-offs and recoveries	(2,231)	(34)	(2,265)	(5,604)
Balance - End of the year	\$ 36,127	\$ 2,795	\$ 38,922	\$ 40,555

The allowance for loan losses for Capital loans, Production loans, Livestock cash advances, Spring seeding loans, Counselling and assistance for farmers loans and Other loans is funded by a grant from Province of Saskatchewan, Department of Agriculture and Food.

6. Assets held for resale

	2001	2000
	(In thousands)	
Cost	\$ 12,462	\$ 14,409
Allowance for losses	(2,795)	(3,420)
	<u>\$ 9,667</u>	<u>\$ 10,989</u>

7. Capital assets and equity in capital assets

	2001	2000
	(In thousands)	
Cost	\$ -	\$ 3,359
Accumulated depreciation	-	(3,063)
	<u>\$ -</u>	<u>\$ 296</u>

8. Borrowing

Sections 17 and 19 of The Agricultural Credit Corporation of Saskatchewan Act allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to \$2,000,000,000.

a) Long-term debt

All long-term debt is repayable to the Province of Saskatchewan General Revenue Fund. Interest is payable semi-annually with principal due at maturity.

Annual Report of the Agricultural Credit Corporation of Saskatchewan

The weighted average interest rates of this debt follows:

Year of Maturity	2001		2000	
	Amount Due	Weighted Average Interest Rate	Amount Due	Weighted Average Interest Rate
(In thousands)				
Debentures				
2001	\$ -	-	\$ 28,600	12.36%
2002	33,000	15.75%	33,000	15.75%
2003	20,434	15.89%	20,434	15.89%
2004	13,517	11.59%	13,517	11.59%
	66,951	14.9%	95,551	13.52%
Bonds				
2001	-	-	140,000	11.00%
	66,951	14.9%	235,551	12.02%
Less: Equity in sinking fund	7,116		157,657	
	\$ 59,835		\$ 77,894	

A sinking fund was established in 1996-1997 to provide payment of the bonds and debentures as they mature. The sinking fund is with the Department of Finance.

9. Interest income

Interest income and dividend income

	2001	2000
	(In thousands)	
Loans receivable	\$ 8,341	\$ 10,235
Reduction of interest allowance on impaired loans	46	854
Short-term investments	357	318
Sinking fund investments	7,104	6,086
	\$ 15,848	\$ 17,493

10. Guaranteed loans under The Agricultural Credit Corporation of Saskatchewan Act

Guarantees may be provided by the Corporation to vendors under the Guaranteed vendor mortgage program for the sale of farm land and existing improvements. The guarantees are for 100% of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2001 was \$453,707 (2000 - \$536,000).

11. Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions with various Saskatchewan crown-controlled departments, agencies and corporations with which the Corporation is related. Transactions with these parties are recorded at what management believes are normal market prices. Account balances from these transactions are included in the Balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described separately in the financial statements and notes thereto.

Included in accounts receivable at March 31, 2001 is \$276,500 (2000 - \$nil) from Saskatchewan Agriculture and Food to fund administration expenses. As well, at March 31, 2001, the Corporation owes \$2,422,134 (2000 - \$6,906,000) (included with interest and other accrued payables) to the Province of Saskatchewan General Revenue Fund for interest on long-term debt. In addition, included in cash and short-term investments is \$3,173,320 (2000 - \$10,944,000) of short-term investments held with the Department of Finance.

During the year, the Corporation paid \$49,130 (2000 - \$425,000) to Saskatchewan Property Management Corporation.

In addition, the Corporation also paid \$416,519 (2000 - \$716,905) to other related parties at normal trade terms.

The expenses paid to the related parties were included with the total Administration expenses.

During the year the Corporation was responsible for collection of inactive accounts on behalf of Saskatchewan Crop Insurance Corporation (SCIC) and Lands Branch. For these services, a commission of \$181,008 (2000 - \$258,153) was received from SCIC and is included in other income.

Effective January 1, 2001, all administration expenses for the Company are paid for by Saskatchewan Agriculture and Food. These costs amounted to \$382,192.

12. Change in working capital other than cash

	2001	2000
	(In thousands)	
Decrease in accrued interest on loans receivable	\$ 644	\$ 1,628
Decrease in accrued interest on debt payable	(4,485)	-
Provision for losses	632	(1,050)
Increase in other non-cash items	1,913	1,885
	<u>\$ (1,296)</u>	<u>\$ 2,463</u>

13. Financial Instruments

Fair values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

- a) Cash, short-term investments, accounts receivable, interest and other accrued payables:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

- b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

- c) Notes payable and debentures payable:

The estimated fair values for all long-term debt obligations and the sinking fund are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements. The estimated fair values of these financial instruments may not represent the amounts that could be realized upon settlement.

The estimated fair values of the Corporation's debt instruments are as follows:

	2001		2000	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
(In thousands)				
Debentures payable	\$ 66,951	\$ 72,897	\$ 95,551	\$ 105,049
Bonds payable	-	-	140,000	142,569
Sinking fund	(7,116)	(7,116)	(157,657)	(156,770)
	<u>\$ 59,835</u>	<u>\$ 65,781</u>	<u>\$ 77,894</u>	<u>\$ 90,848</u>

Credit risk management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Corporation requires security agreements and personal guarantees on all loans.

Interest rate risk management

The Corporation manages interest rate risk by borrowing long-term debt through the Province of Saskatchewan General Revenue Fund at fixed interest rates and terms designated to match the average terms of the Corporation's loan portfolio.

14. Budget figures

The Budget figures are presented for comparison purposes, are unaudited, and are those approved by the Board, reclassified to conform with the presentation of these financial statements.

Annual Report of the Agricultural Credit Corporation of Saskatchewan

SCHEDULE 1

For year ended March 31

Administrative Expenses

	2001	2000
	(In thousands)	
Telephone, postage and courier	\$ 78	\$ 126
Legal and registration fees	140	285
Management information systems	37	164
Office occupancy	-	397
Professional services	99	108
Salaries and benefits	1,567	3,349
Severance costs due to wind up	503	786
Supplies and office equipment	8	81
Travel and sustenance	169	214
	<u>\$ 2,601</u>	<u>\$ 5,510</u>

As described in Note 2a, the following table summarizes grant activity for the year ended March 31, 2001.

SCHEDULE 2

Grants from Province of Saskatchewan - Department of Agriculture and Food

(in thousands)

	Administr- ation	Interest Subsidy	Loan Losses & Guarantees	Counselling & Assistance for Farmers	2001 Total	2000 Total
Appropriation approved	\$ 2,274	\$ 9,500	\$ -	\$ -	\$ 11,774	\$ 16,533
Appropriation not required	277	(1,250)	-	-	(973)	(650)
Grant proceeds available	<u>2,551</u>	<u>8,250</u>	<u>-</u>	<u>-</u>	<u>10,801</u>	<u>15,883</u>
Expenditures						
Administration	\$ 2,601	\$ -	\$ -	\$ -	\$ 2,601	\$ 5,510
Interest	-	23,465	-	-	23,465	29,143
Provision for losses	-	-	898	(266)	632	(1,050)
Less						
Interest income	-	(15,756)	-	(92)	(15,848)	(17,493)
Other income	(303)	-	-	-	(303)	(496)
Net expenditure (revenue)	<u>2,298</u>	<u>7,709</u>	<u>898</u>	<u>(358)</u>	<u>10,547</u>	<u>15,614</u>
	<u>\$ 253</u>	<u>\$ 541</u>	<u>\$ (898)</u>	<u>\$ 358</u>	<u>\$ 254</u>	<u>\$ 269</u>

**Agricultural Credit Corporation of Saskatchewan
2000/01 Supplementary Payment Information**

Personal Services - Out-of-Scope - The following is a list of individuals who received payments for salaries, wages, honorariums, severances, etc. totalling \$2,500.00 or more.

Ballard, Lyle	62,991	Lewis, Glen	107,947
Boyce, James	52,425	Magnuson, Jackie	47,148
Byblow, Daryl	15,600	Mazurkewich, Ted	90,540
Cave, Norma	16,798	Mojelski, Carol	38,850
Davidson, Barry	76,870	Neuls, Clinton	10,633
Donnawell, Ernest	55,536	O'Donnell, Larry	77,182
Ford, Donna	17,369	Paul, Jim	69,475
Friesen, Karen	37,860	Pepin, Denis	43,848
Galatiuk, Arch	86,263	Pierce, Donald	75,366
Gerein, Gary	43,848	Rakochy, Joseph	67,035
Goodwin, Valerie	44,815	Robidoux, Gene	4,076
Hamilton, Kenneth	48,734	Robinson, Mark	25,798
Hooper, Laurie	12,978	Schultz, Pam	14,941
Hopfner, Kathleen	25,644	Schwartz, Thomas	61,695
Horne, Michael	68,961	Shoemaker, Robert	54,677
Karcha, Wade	54,504	Stapleton, Charles	54,677
Kesslering, Gail	43,848	Stinson, Monique	30,735
Kutaj, Denise	50,915	Travis, Kathy	32,473
Lefevre, Philip	43,848	Turcotte, Lionel	79,617
		Voth, Angela	11,064

Total 1,857,582

The above includes salaries to Dec. 31 only when the admin transferred to SAF.
It does includes severance paid to March 31, 2001

Other Payments - The following is a list of payees who received \$20,000 or more for purposes other than grants or personal services. For example rent, contracts, equipment, office supplies, etc.

Sam McCullough	57,983
MacPherson, Leslie & Tyerman	108,706
Price Waterhouse Coopers	44,933
Saskatchewan Property Management Corp.	49,130
Sasktel	67,601
Total	<u><u>328,353</u></u>